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Vietnam

Cotton and Products Update

Commodity Report 2017

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Report Highlights:

Vietnam's MY2016/2017 cotton imports reached 1.2 million tons (or 5.5 million bales), up 20% over MY2015/2016. Preliminary forecast on Vietnam's cotton imports in MY2017/2018 is 1.38 million tons, up 15% over MY2016/2017. U.S. cotton continues to dominate the Vietnam market with accelerating market share, from 42% in MY2015/2016 to a record-breaking 53.5% in MY 2016/2017. U.S. cotton exports to Vietnam in MY2017/2018 are forecast to surge to 770,000 tons, up 20% over MY2016/2017.

Commodities:

Cotton

SITUATION AND OUTLOOK

Textile Industry

Textile and garment industry ranked as one of Vietnam's top export industries over the past several years. The country's textile and garment industry is one of the main pillars of the economy and it contributes significantly to GDP growth. Export revenue in calendar year 2017 is expected to reach \$31.5 billion, up about 10% over CY2016. The latter may be a sign that the sector is recovering especially in light of two consecutive years of declining growth rate - from 20.9% in 2014 to 10.9% in 2015 and to 5% in 2016.

In 2017, FDI capital inflow into the textile and garment industry continues to surge. The expansion of an existing Taiwanese spinning mill in Binh Duong Province is another example of the industry's appetite for using FDI to expand production. The company received government approval to increase its investment capital from \$274 million to \$760 million. The fact that the company decided to pump \$486 million into its existing spinning mill in Vietnam reflects foreign investors' belief and confidence in this market. Similarly, local spinning mills have also expanded their production capacities. During recent visits to several spinning mills last June, Post was informed that three local spinning mills are set to add 100,000 spindles by end of CY2017.

Industry experts estimate that Vietnam's spinning sector comprises of about 100 spinning mills with about 8.5 million spindles (equivalent) for an estimated capacity of over 2 million tons of yarns in 2017- refer to Table 1 below.

Table 1: Vietnam Textile/Spinning Industry Overview

	2013	2014	2015	2016	2017*
Total Number of Spindles	6,000,000	6,100,000	6,300,000	7,000,000	7,500,000
Total Number of Rotors	103,348	103,348	103,348	103,348	103,348
Yarn Production from cotton and man-made fibers (Unit: Ton)	720,000	930,000	990,000	1,550,000	2,050,000
Yarns Exports (Unit: Ton)	720,000	858,500	961,800	1,167,000	1,300,000
Yarn Imports (Unit: Ton)	695,000	740,000	791,800	861,400	904,000
Fabric Production (billion m2)	1.3	1.5	1.7	2	2.3
Fabric Imports (billion USD)	8.3	9.4	10.2	10.2	10.7

Source: Vietnam Spinning Association, VITAS, Customs Vietnam and Post's estimate

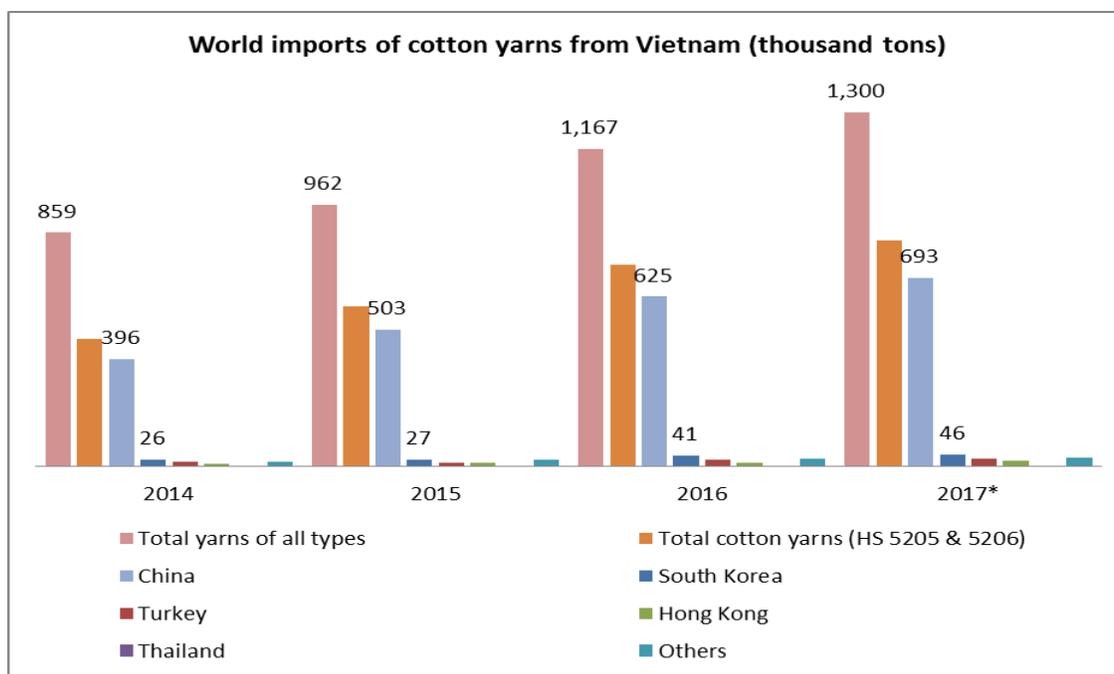
Vietnam exports about 65% of its yarns to international markets, especially to China, South Korea and Turkey. Post estimates that total yarn exports in CY 2017 could reach 1.3 million tons, up about 10% over the last year, of which 65% (approx. 845,000 tons) are cotton yarns (HS 5205 & 5206)

Vietnam’s cotton yarns exports to China continue to surge sharply in CY2017. Statistic data shows that exports of cotton yarns from Vietnam to China in the first eight months of CY2017 reached 462,000 tons, up 16% over the same period last year and could reach close to 700 tons at the end of the year. As such, China remains the largest importer of Vietnam’s cotton yarns. China imports over 80% of Vietnam’s total cotton yarns exports in CY2017. In other words, the Vietnam spinning industry remains heavily dependent on China’s strong demand for cotton yarn. Any changes in China’s cotton and cotton yarn policies will immediately affect Vietnam’s cotton imports. Fortunately, recent changes in China’s cotton policies, including generous governmental support for yarn spinning in Western China alongside a reserve policy that reduced local cotton prices closer to global levels, seem not to adversely affect Vietnam’s cotton yarn exports. The reality is that, Vietnam’s cotton yarns exports to China continue to increase. In the short term, the Vietnam spinning industry is likely to continue capitalizing on the advantages offered by its geographic proximity, competitive cost and the benefits offered by the China-ASEAN free trade agreement. Vietnam will continue to leverage these opportunities to boost yarn exports to China.

The second important customers of cotton yarns from Vietnam include South Korea and Turkey. Cotton yarns exports to these two countries are forecast to slightly increase to 46,000 tons and 30,000 tons in CY 2017, up 12% and 10% over the previous year, respectively. Vietnam’s cotton yarn exports are forecast up for South Korea but likely down for Turkey, in light of recovering cotton production from lower levels in the previous season.

Table 2: Vietnam exports of cotton yarns to global markets (quantity in thousand tons)

Importing countries	Calendar year				Change b/w 2017/2016*	Market share in 2017*
	2014	2015	2016	2017*		
China	396	503	625	693	10.9%	83%
South Korea	26	27	41	46	12.2%	6%
Turkey	18	15	27	30	10.0%	4%
Hong Kong	9	16	15	21	40.0%	3%
Thailand	2	3	5	5	0.0%	1%
Others	19	25	30	35	16.7%	4%
Total cotton yarns (HS 5205 & 5206)	470	589	743	830	11.7%	
Total yarns of all types	859	962	1,167	1,300	11.4%	
% cotton yarns/ total yarns	55%	61%	64%	64%		



Source: Global Trade Atlas, Customs Vietnam and *Post's estimate

Vietnam also imports yarns for its weaving and knitting industry. Most of the yarns imported into Vietnam are man-made yarns. Vietnam's cotton yarns imports have decreased over the past three years, reflecting an improving supply of domestic cotton yarns. Further details are illustrated in the table 3 below:

Table 3: Vietnam imports of yarns from worldwide markets (quantity in thousand tons)

Reporting Country	Calendar Year				Market share in CY 2016
	2014	2015	2016	% change 2016/2015	
Total yarns imported	740.0	791.8	861.4	9%	
China	261.0	301.1	358.8	19%	42%
Taiwan	208.6	192.7	195.4	1%	23%
Thailand	80.0	82.8	78.6	-5%	9%
South Korea	76.8	79.6	77.8	-2%	9%
Indonesia	46.7	53.4	60.0	12%	7%
Others	58.0	69.7	74.8	7%	8%

Others not listed	8.9	12. 5	16. 0	28%	2%
Cotton yarns imported	15 5.0	73 .0	62 .0	-15%	
% cotton yarns/ total yarns imported	21%	9%	7%		

Source: Global Trade Atlas, Customs Vietnam and Post's estimate

Cotton Market

Vietnam totally relies on imported cotton to feed its growing spinning industry. The country's top five cotton suppliers include the U.S., India, Brazil, Australia and Cote d'Ivoire. These countries make up 70% to 80% of the total cotton supply. Vietnamese cotton buyers are looking for other suppliers including Argentina and African countries to hedge the risks of relying on only one or two major suppliers. However, the evidence suggests that import quantity is still negligible from these new suppliers. Vietnam is likely to remain the fastest growing cotton consuming country because of several factors – reaping the benefits from different sources, increasing cotton yarn imports from international markets, especially from China, Turkey and South Korea, and taking advantage of the opportunities offered by a series of free trade agreements with trading partners. In other words, as Vietnam's textile sector grows - the country will continue to import more cotton in the short to medium term.

PRODUCTION:

Vietnam's Cotton Production

Vietnam's cotton planted area continues to shrink to an insignificant amount. Domestic cotton supply is estimated less than 1% of the market demand. Declining cotton planted acreage means, Vietnam is becoming a 100% cotton importer. There are several reasons that help explain the dramatic decline of cotton planted area in Vietnam:

- 1) International cotton price has dropped in the last few years while local cotton production cost remained uncompetitive.
- 2) Cotton is facing increasingly tougher competition from other cash crops including coffee, cashew, corn, rubber, cassava and fresh fruits. These cash crops are more profitable to farmers.
- 3) Lesser incentives offered by state entities and no commitments made by cotton ginning mills to guarantee the farmers' profit
- 4) Increasing investments in cattle livestock in the Central Highland region is taking over lots of cultivated land, including those for cotton plantation; and
- 5) China is importing less cotton and resulting in more exportable supply from international producers (USA, Australian, India, Brazil and Pakistan)

TRADE:

Vietnam Imports of Cotton by Calendar Year and Vietnam's Top Cotton Suppliers:

Strong demand for cotton yarns from international markets, especially from China, Turkey and South Korea continues to simultaneously support Vietnam's strong demand for more cotton to feed its expanding spinning sector. Post forecast Vietnam's cotton imports in CY2017 will reach another record, somewhere around 1.34 million tons (or roundly 6,150 million bales), up 30% over CY2016.

The U.S. has topped the list of cotton suppliers to Vietnam for nearly a decade. In CY 2017, U.S. cotton exports to Vietnam are expected to climb up to 730,000 tons, up 36% over the year before. U.S. cotton continues to enlarge its market share in Vietnam, from 51.9% in CY2016 to an estimated 54.5% in CY 2017, reflecting its strong commitment in dealing with tougher competition from other major cotton suppliers, such as India, Australia and Brazil. Refer to Table 4 below for further details:

Table 4: Import Trade Matrix

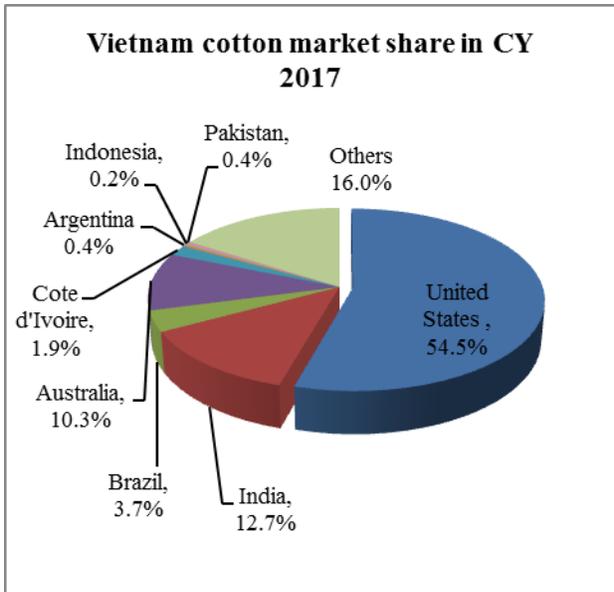
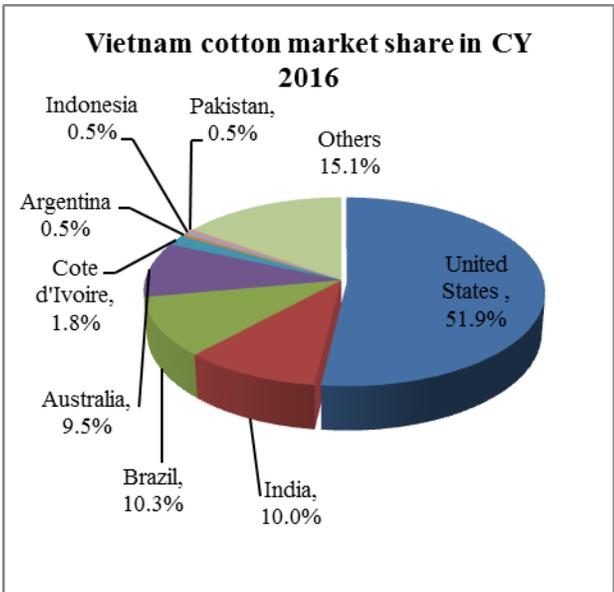
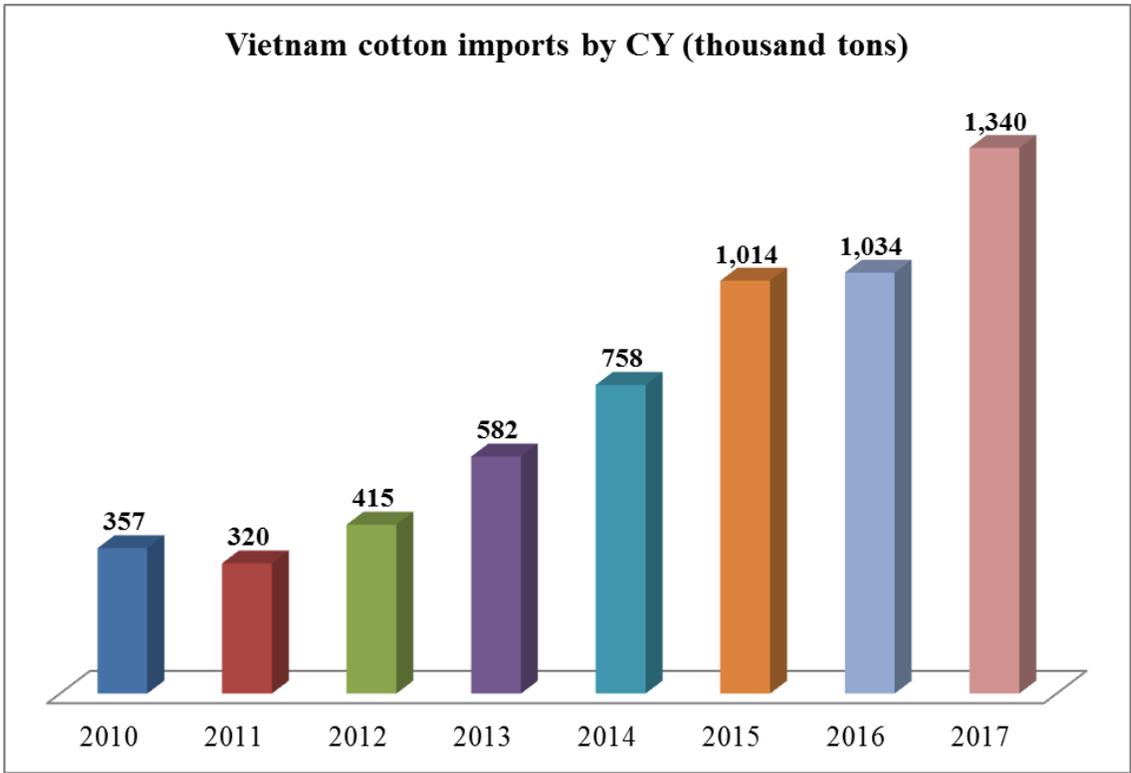
Country: Vietnam

Commodity: Cotton

Unit: Thousand tons

Reporting Country	Calendar year				% Change 2017/2016	Market share by quantity	
	2014	2015	2016	2017*		2016	2017
United States	219	432	537	730	36%	51.9%	54.5%
Others							
India	156	125	103	170	65%	10.0%	12.7%
Brazil	80	136	106	50	-53%	10.3%	3.7%
Australia	78	48	98	138	41%	9.5%	10.3%
Cote d'Ivoire	24	28	19	25	32%	1.8%	1.9%
Argentina	16	2	5	5	0%	0.5%	0.4%
Indonesia	5	3	5	3	-40%	0.5%	0.2%
Pakistan	17	17	5	5	0%	0.5%	0.4%
Total of others	376	359	341	396	16%	33.0%	29.6%
Others not listed	163	223	156	214	37%	15.1%	16.0%
Grand total	758	1,014	1,034	1,340	30%		

Source: Global Trade Atlas, Vietnam Customs & *Post estimates



Vietnam imports of cotton by Marketing Year (August 2017-July 2018):

Vietnam’s cotton imports in MY2016/2017 climbed up to 1.2 million tons, which is equivalent to 5,508 million bales, up 20% over MY2015/2016. Based on the following factors - average growth of Vietnam’s spinning sector, international demand for cotton yarns and positive estimate on global cotton

supply, it is expected that Vietnam’s cotton imports would likely reach 1.38 million tons in the MY2017/2018 (or 6.33 million bales), up 15% over MY2016/2017.

U.S. Cotton Exports to Vietnam

Cotton from the U.S. continues to strengthen its market share while maintaining its competitive edge and market leadership. U.S. cotton exports to Vietnam increased sharply in MY 2016/2017, far beyond expectation and reached a record-breaking volume of 644,000 tons (or 2.95 million bales) for a value of \$1.07 billion, a year-on-year increase of 53% in quantity and 79% in value. The U.S. cotton success story in Vietnam is attributed to various factors including:

- Vietnam’s cotton imports increased strongly to match a growing demand for cotton yarns from both domestic and export markets, specifically from China, South Korea and Turkey
- major spinners in Vietnam representing Chinese, Taiwanese and Korean investments, continue to favor U.S. cotton for its stable and premium qualities, availability and competitive price

U.S. cotton production in MY2017/2018 is estimated larger than the previous year. The production increase will help the U.S. have more cotton for exports at more competitive prices. Consequently, U.S. cotton exports to Vietnam are forecast to hit a new record level, at about 770,000 tons or roughly 3.5 million bales, up 20% over MY2016/2017. Market share is expected to grow up from 53.5% in MY2016/2017 to 56% in MY2017/2018.

Table 5: U.S. Cotton Exports to Vietnam by Marketing Year

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018*
	Aug-Jul	Aug-Jul	Aug-Jul	Aug-Jul	Aug-Jul	Aug-Jul
Quantity (1000 tons)	194.7	222.7	404.8	421.0	644.0	770.0
% change		14%	82%	4%	53%	20%
Value (\$ million USD)	350.2	420.0	591.2	598.1	1,080	n.a.
% change		20%	41%	1%	79%	n.a.

Source: U.S. Census Bureau Trade Data and *Post’s estimate

CONSUMPTION:

Vietnam’s cotton consumption continues to increase to meet growing demand for cotton yarns from export markets, especially China. A significant amount of the imported cotton has been used for cotton yarns since there are no records of cotton re-export trade. Post estimates that 80% of imported cotton was spun into cotton yarns (HS 5205 & 5206) for exports while the rest was made into yarns of various types for domestic consumption. As illustrated in table 2, increasing cotton yarn production in Vietnam is mainly due to strong demand from China, accounting for over 80% of the total cotton yarn production. The data shows that Vietnam’s cotton consumption heavily depends on demand for yarn in

China, which is the largest cotton yarn importer. In contrast, domestic consumption of cotton yarn is less robust. Overall, China’s policy of favoring imports of cotton yarn from Vietnam while reducing imports from India and Pakistan will increase Vietnam’s cotton consumption in MY2017/2018.

PRICES

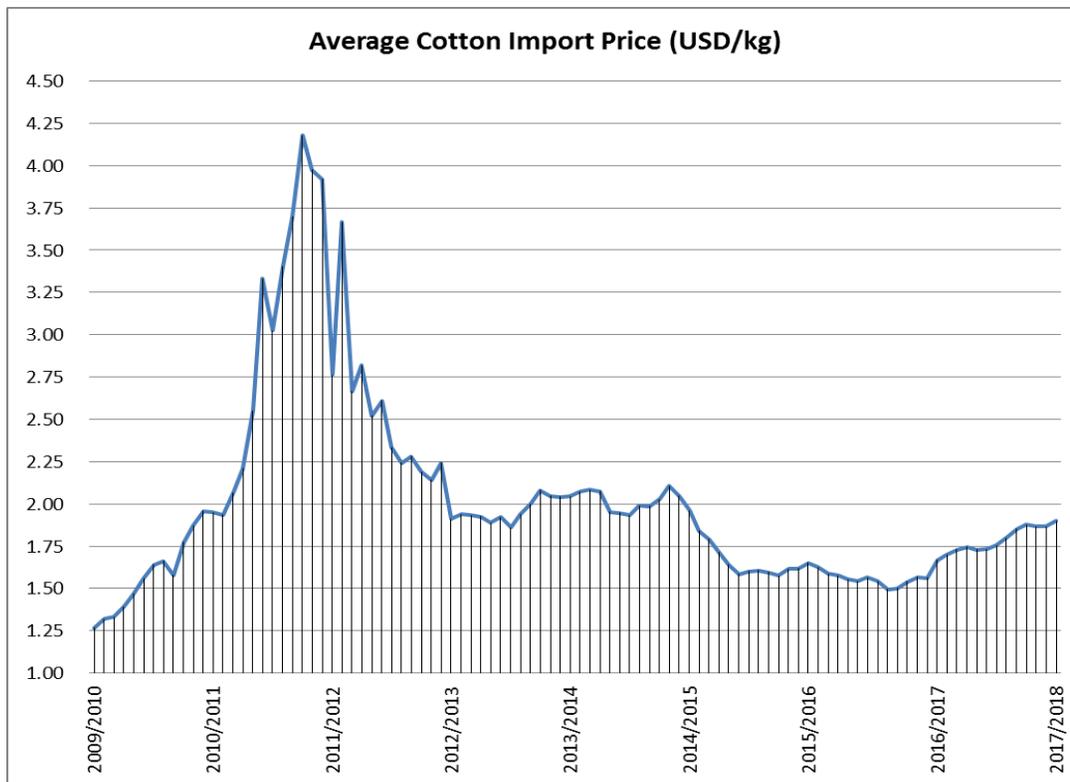
Table 6 illustrates monthly average price of cotton imported into Vietnam in recent marketing years. The average price for imported cotton dropped to \$1.5 per kg in April and May 2016, the lowest level in the last five MY. However, the average price has rebounded since June 2016 and has been on a comparatively high level during MY2016/2017.

Table 6: Cotton Average Import Price during MY2011/2012 – 2016/2017

Unit: USD / Kg

Month	Marketing Year					
	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Aug	2.76	1.91	2.04	1.96	1.65	1.67
Sep	3.67	1.94	2.07	1.84	1.63	1.70
Oct	2.67	1.93	2.08	1.79	1.59	1.73
Nov	2.82	1.93	2.08	1.72	1.58	1.75
Dec	2.52	1.89	1.95	1.64	1.56	1.73
Jan	2.61	1.92	1.95	1.58	1.54	1.73
Feb	2.33	1.86	1.93	1.60	1.57	1.76
Mar	2.24	1.94	1.99	1.61	1.54	1.79
Apr	2.28	2.00	1.99	1.60	1.50	1.85
May	2.19	2.08	2.03	1.58	1.50	1.88
Jun	2.14	2.05	2.11	1.61	1.54	1.87
Jul	2.24	2.04	2.05	1.62	1.57	1.87
Average Price	2.54	1.96	2.02	1.66	1.56	1.78
Exchange rate: 22,685 , local currency / US dollar as of October 11, 2017						

Source: Vietnam Customs Department & Vietnam Commercial Bank



STOCKS:

Since global supply of cotton is estimated larger than in previous years, local importers can easily and competitively source cotton and, therefore, do not need to keep large stocks. Spinners have reduced stocks for production from 60 days to 45 days or even to 30 days. Post estimate the stocks-to-use ratio in MY 2016/2017 varied between 15% and 17%.

MARKETING/ POLICY:

Tariff on Cotton

Cotton fiber (HS code 5201, 5203) has a zero tariff but a 5% value added tax is assessed.

Tariff on cotton yarn

Cotton yarn (HS code 5205-5206-5207) has a 5% tariff and a 10% value added tax.

Biotech Policy and Cotton Production

Commercialization of biotech cotton is not yet approved in Vietnam. However, confined field trails for biotech cotton are authorized. To date, field trials have not been conducted. For more information on agricultural biotechnology in Vietnam, please refer to GAIN Report [VM4020](#).

PRODUCTION, SUPPLY AND DEMAND DATA STATISTICS:

Table 7: Vietnam's Cotton Production, Supply and Demand

Cotton	2015/2016		2016/2017		2017/2018	
Market Begin Year	Aug 2015		Aug 2016		Aug 2017	
Vietnam	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	1	1	1	1	1	1
Beginning Stocks	676	676	779	790	882	901
Production	3	3	3	3	3	3
Imports	4,500	4,583	5,500	5,508	6,600	6,330
MY Imports from U.S.	0	1,931	0	2954	0	3,532
Total Supply	5,179	5,262	6,282	6,301	7,485	7,234
Exports	0	0	0	0	0	0
Use	4,400	4,472	5,400	5,400	6,200	6,150
Loss	0	0	0	0	0	0
Total Dom. Cons.	4,400	4,472	5,400	5,400	6,200	6,150
Ending Stocks	779	790	882	901	1,285	1,084
Total Distribution	5,179	5,262	6,282	6,301	7,485	7,234
Stock to Use %	17.7	17.67	16.33	16.69	20.73	17.63
Yield	653	653	653	653	653	653

Source: FAS, Official USDA's estimate and Post's estimate

Note for unit measures:

- Planted area/Harvest area: 1,000 ha
- Yield: kg/ha
- Beginning stocks/Production/Imports/ MY imports from U.S/ Total Supply/Exports/Use/Total Domestic Consumption/Ending Stocks/Total distribution: 1,000 bales (480-lb bale equivalent to 218-kg bale)